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Business Conditions, Problems, and Opportunities

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MOBILIZING DORMANT RESOURCES:
NEGRO ENTREPRENEURS



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Mobilizing Dormant Resources: Negro Entrepreneurs

by Abraham S. Venable

The Negro needs a stake in the economic future of this country. A new program spearheaded by the Department of Commerce is helping him build his own businesses.

OVER the past several months it has become apparent that businessmen will play an increasingly important role and will assume greater responsibility for improving race relations in our nation. Both Negro and white leaders generally recognize that legislation alone cannot be an all-encompassing promoter of social and economic change. In addition, they realize the effective limits and diminishing returns of governmental action.

With the passage of the Civil Rights Act of 1964, the Voting Rights Act and other impending civil rights legislation, Negro leaders now, more than ever, are addressing their demands not to the legislature or courts, but to community associations, labor unions and business organizations. Consequently, the business community is now bearing a larger share of the burden in resolving civil rights matters because business is best able to take responsibility for improving job opportunities at both lower and higher management levels, and business can best organize and administer job training programs designed to qualify Negroes and other minority workers for better jobs. In addition, the business community has a real stake in setting the tone and style for a new acceptance of minority groups on all levels of our nation's economic life.

The Department of Commerce is deeply concerned with the role of the Negro in industry and commerce. In addition, the presence of the Community Relations Service in the Department for approximately 20 months identified the Department and the concept of equal opportunity in the minds of businessmen and civil rights leaders. If the concept of equal opportunity were truly a reality, our Gross National Product would be approximately \$27 billion higher or a 4 percent increase. This, of course, assumes that both unemployment rates and productivity levels for the Negro and white labor force were equal.

No one has estimated what this means in loss of jobs and manpower to individual businesses and no one could calculate the loss in human value to our society. It is only proper that the Department of Commerce take a closer look at how it might help correct this situation.

AFFIRMATIVE ACTION PROGRAMS

The U.S. Department of Commerce is the business agency of the Federal Government and its primary mission is economic growth and advancement within the framework of the free enterprise system. In carrying out this responsibility, the Department has established over the years intimate relationships with a large cross section of the total business community. It is certainly the essence of these close ties with the business community which represents the fundamental basis and rationale for its involvement in the economic aspects of race relations.

In the Business and Defense Services Administration, the Agency with primary responsibility for promoting domestic commerce, the Department established an Affirmative Action Programs Staff. It seeks to bring about equal opportunity for American citizens by fostering and developing within the business community affirmative action programs for implementing the spirit and intent of the civil rights laws.

The major emphasis at this time is directed at the development of programs especially designed to assist minority group businesses.

In carrying out our programs, we make the following assumptions:

Most Negro-owned businesses are in the service and trade industries and are very small. They compare in size with many other businesses as they were 30 or 40 years ago and are conducted at a rather low level of efficiency, organization, and profitability. Most minority group members have not been a part of the American industrial and economic revolution which has propelled American business efficiency to unexcelled heights. The result is that even in a period in which industry's profits are higher than they have been in the history of our country, the Negro businessman is struggling to survive.

Recent racial disturbances in our major urban areas have heightened the cry from civil rights leaders that until the Negro has a stake in the economic future of America—as meaningful as that of whites—racial unrest will continue.

In the white community, businessmen are predominantly community leaders. Because the Negro businessman has to struggle to survive, he has neither the time nor the stature to serve as a community leader. Thus the neighborhood and the community at large are deprived of what should be one of their strongest stabilizing influences.

More often than not, many Negro businessmen are a symbol of frustration and hopelessness rather than an example of achievement, success and leadership. As a result, "business" per se is not a polite word in

the Negro community, and Negro parents as a rule tend to discourage their children from pursuing business careers either as employees or as entrepreneurs.

With this as basic background, our approach has been one of coordination and communication. The Department does not attempt to establish a new set of business rules for minority group members, rather, it is working to help Negro businessmen and other minority groups become more aware and make greater use of public and private resources that are available to assist business. We emphasize the proven techniques which the majority business community has used to achieve its economic objectives.

DEMONSTRATION PROGRAMS— A CASE STUDY

In an effort to improve the efficiency and profitability of businesses owned and operated by minority group members, a series of demonstration programs have been initiated to show the merit of organizational techniques widely proven by American businessmen. One such experiment involves the organization of independent, minority group businesses—which sell identical products or services—into self-help groups to allow for greater efficiency through combined purchasing, group advertising, maintenance of quality workmanship and attractive shop appearance.

In July, 1966, the Department's Economic Development Administration funded a one-year experiment at Howard University, conducted through its Small Business Guidance and Development Center, in organizing local dry cleaners into a homogeneous group for their collective and individual advantage.

Such an "Economic Organization Concept," embodies the cooperative joining of business firms into a trade association—through which a standardization of operational procedures and marketing techniques are initiated to allow the individual participating firms an opportunity to up-grade themselves, over a given period of time, to meet the minimum operational standards and requirements for any possible successful survival in the general market—the total effort being directed at maximizing efficiency and profit.

Through an analysis of the small dry cleaners by Howard University, it was determined which areas represented the greatest problems. Once this was decided, the standardization of procedures was initiated, which included the following areas:

- (1) physical appearance or image control
- (2) quality control
- (3) accounting systems
- (4) employee and employer benefits program
- (5) employee training
- (6) customer service expansion, and
- (7) cooperative buying of wholesale supplies.

The vehicle selected for organizing the shop owners was the Capital Drycleaners Association, officially formed February 14. CDA now has 65 dues-paying members. To date significant progress has been made in six areas:

(1) improvement of physical appearance of shops (2) review of records (3) insurance (4) employer and employee training (5) advertising and (6) publishing a newsletter. There are problems yet to be worked out, but the Association, with experienced officers, a strong board, 65 members and a developing program says much for the leadership and dedication of all involved in this project.

We have been greatly pleased with the initial success of the dry cleaning project and are confident that the desired objectives will be reached. Response from the individual dry cleaners has been enthusiastic. Cooperation of established trade associations, which represented a big question mark, has been most gratifying.

In our opinion, the Howard project has proven the feasibility of organizing *local* businesses for common economic goals.

EXPANDING THE SCOPE

With this experience behind us we plan in the near future to expand on this basic philosophy. We feel that the next logical step is to test the feasibility of this technique on a regional or national level and with a more sophisticated line of business. We are, therefore, considering the organization of minority group owned furniture and appliance stores from Boston, Mass. to Richmond, Va. into a self-help structure which will serve their collective and individual business needs.

The organizational concept to be followed would be the same as that adopted by Howard University in the dry cleaning project. We have held exploratory talks with firms in Washington, Baltimore, Philadelphia, Trenton,

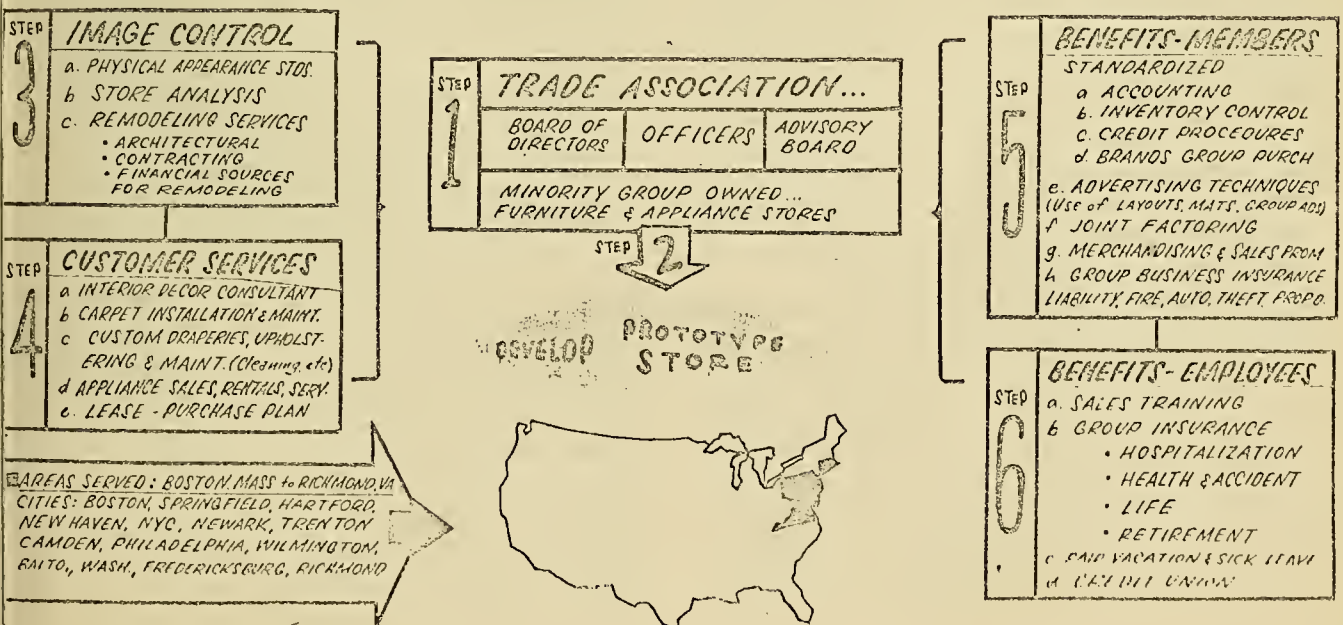
and New York City. The response of the store owners has been very encouraging. See Chart 1.

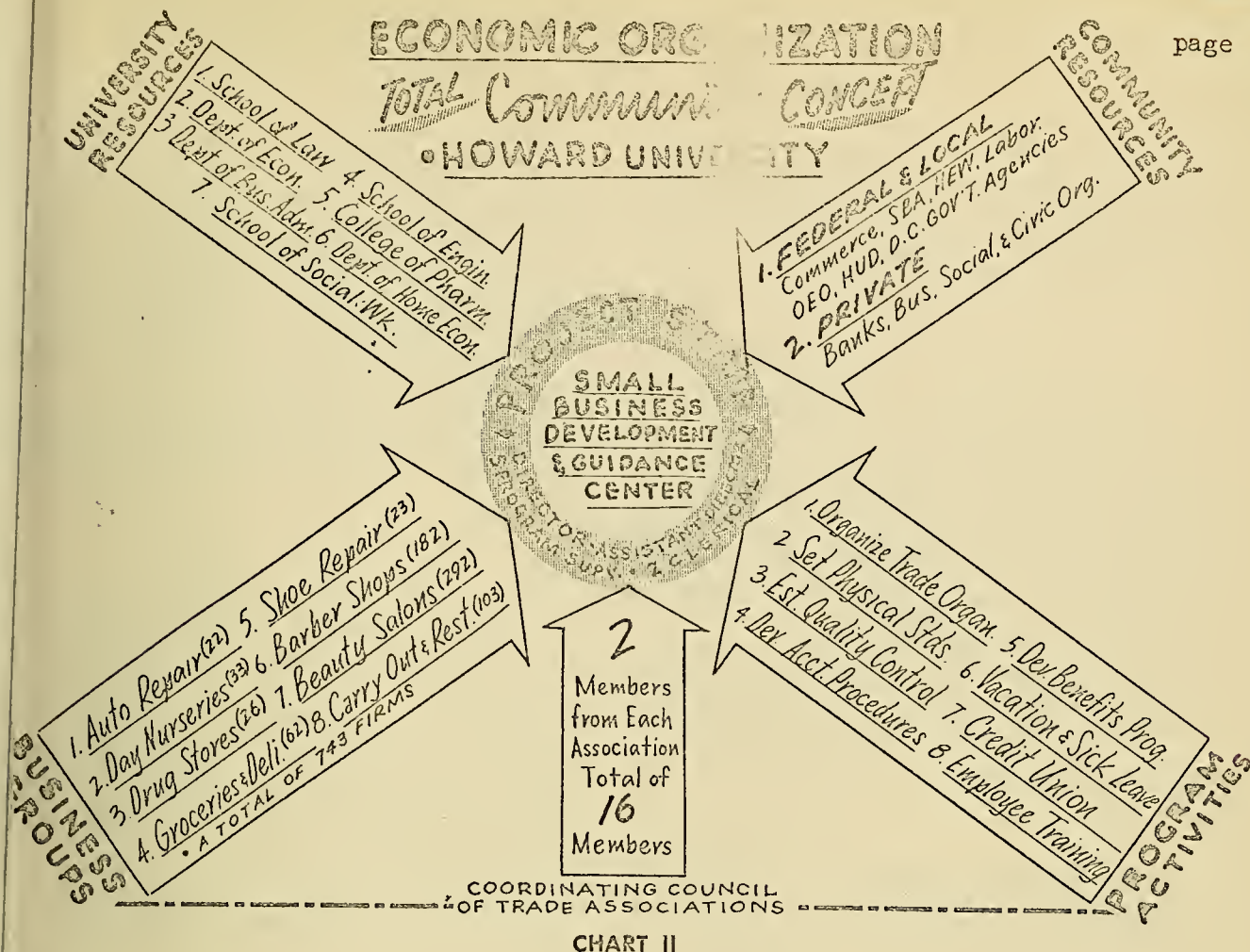
While we feel it is crucially important to expand the economic organization concept to more sophisticated lines of business, we are equally convinced that the concept must be expanded to include more businesses in the service and trade areas. As previously mentioned, most Negro-owned businesses are in the service and trades areas. If any significant impact is going to be made in improving the plight of existing Negro businesses, we must focus primary emphasis on the service and trades industries. In planning a program along these lines we will broaden the scope of coverage to include additional lines of local business instead of following the one-line approach in the dry cleaning project. Consequently, there will be several trade associations organized simultaneously, each one emphasizing the standardization of those operation procedures representing the greatest problem areas.

After careful analysis of many different types of service and trade businesses, it was obvious that the problem areas were the same. Therefore, a multiple use approach, in organizing several business groups simultaneously would present no new problems and would allow for the rapid expansion needed to achieve total community coverage. To achieve uniformity and facilitate cross fertilization, the University will form a Coordinating Council of Trade Associations. Each group will designate two officers to serve. The Council will function as the basic guiding unit to achieve intergroup cooperation

CHART I

Regional ECONOMIC ORGANIZATION Project





and as a sort of steering committee. In addition, we will attempt to create a much more significant involvement by the University and its total resources, most important, direct student-teacher involvement. For example:

- (1) The Law school could help setup the Trade Associations and provide other legal assistance
- (2) The Business and Economics Department could carry out shop accounting reviews and devise a simplified system for possible use by all shops
- (3) The School of Engineering and Architecture could establish physical appearance standards and review the individual shops, and
- (4) The School of Social Work could provide guidance and social development assistance.

This total effort would be directed at creating a new level of involvement by the University in the economic problems of low-income persons. It is equally important that college students be involved in well directed action programs, so they have first-hand experience at *what business is and how*, from a practical standpoint, *business fits into the capitalistic economy*. The involvement of the University, its resources, and its students in the every day, bread-and-butter issues of the low-income business community, would form a sound basis for economic development of the distressed community. See Chart II.

URGENCY NEEDED

Economic organization of minority group businesses is a relatively new tool. It represents a more far-reaching and effective means of up-grading marginal businesses than programs involving guidance, counseling and training. This does not mean that these tools are unimportant. On the contrary, they are vital, but economic organization goes further, with the concepts of guidance, counseling and training built in. It provides the mechanism for the businessman to take full advantage of his training, enabling him to move up to a more efficient and productive level of operation. Economic organization is useful in single-line operations on the local level, as well as in multi-line businesses on a regional or national level.

We strongly believe that economic organization of minority group owned businesses represents an effective means of setting in motion self-perpetuating machinery which will allow the Negro community, eventually, to function and grow on its own as a vital part of the total business community.

The need for further demonstration, by leading universities, business organizations and philanthropic groups, is urgent, if we are to develop this technique to the point where it can be effectively utilized by interested minority and other marginal businessmen through the country.

DAVID R. BRYANT

David R. Bryant was graduated *magna cum laude* from Princeton in 1964. An economics major, he received special distinction for his senior thesis: *Differential Income Taxation of Stockholders: The Fairness of the Corporation In-*

come Tax. Mr. Bryant received his M.B.A. from Stanford, where his major field was finance. Currently he is a first year student at the University of Michigan Law School.

cy as a research assistant in the Office of Policy Development. His family owns a small moving and storage company in Spokane, Washington, and because of his interest and experience in transportation he chose to write his second year research report on the DOT.

C. DAVIS PIKE

C. Davis Pike graduated from Harvard College in 1962 with an A.B. in Economics. He joined the U.S. Army Security Agency for six months active duty and in 1963 entered the Harvard Business School, concentrating in International

Business. Mr. Pike has travelled extensively, working summers in Santiago, Chile; Blantyre, Malawi; and Paris. He is particularly qualified to describe the current business climate in South Vietnam, as he is working in Saigon.

ROBERT I. HARRIES

Robert I. Harries grew up in Adelaide, South Australia. He attended the University of Adelaide, where he taught after receiving his Bachelor of Economics with first class honors. A second-year M.B.A. candidate at the Harvard Business

School, he holds the Frank Knox Fellowship, the George Murray Scholarship, and a Fulbright Travel Grant. Mr. Harries is no mere scholar, as he has been a member of the All-Australian Amateur Football Team.

ABRAHAM S. VENABLE

Abraham S. Venable resides with his wife and three children in Washington, D.C. Holder of B.A. and M.A. degrees in economics from Howard University, Mr. Venable has worked as sales manager, vice-president of marketing, and president of

three different companies. In 1963 he joined the Department of Commerce, where he has been a specialist with the Community Relations Service and the Task Force on Equal Opportunity in Business. Currently he serves as Director of the Affirmative Action Programs Staff in the Business and Defense Services Administration.

PETER M. OCHS

Peter M. Ochs is an honors graduate from Princeton University, class of 1965. His undergraduate thesis was titled *The Common Stock Warrant*. Mr. Ochs is presently in his second year at the Stanford University Graduate School of

Business and is majoring in finance. While at Stanford he has been Secretary of the Investment Club, participant in the Carmel Seminar on Business Ethics, and an Associate Editor of *The MBA*.

JOHN WATTS

John Watts received a B.S. degree in engineering from the University of Texas in 1960 and an M.S. degree in 1964 with a thesis on applications of operations research methods. He spent three years in the navy, as a missile officer aboard

ship and as a missile development officer at a laboratory. He was a member of the operations research group at Arthur D. Little, Inc. for two years, where he was involved in several forecasting and modeling projects for corporate, military, and government-agency clients. He is a registered professional engineer in Massachusetts.

STEVEN L. PEASE

Steven L. Pease, born in 1943, is a second-year student at the Harvard Business School. He is a graduate of the University of Washington in 1965, where he majored in marketing. During the summer of 1966 he worked for the Federal Aviation Agen-



Riva Poor

REF: Many EOL loans have defaulted. SBA attributes this largely to lack of management skills on the part of recipients and lack of advice and supervision on the part of SBA. As a result, SBA has changed its lending qualifications: requiring more business skill on the part of borrowers; deemphasizing ceilings on family income and residence in a poverty area; and providing more management assistance.

**Antipoverty Setback
in Defaults Mar Bid
U.S. to Aid Business
Poor Neighborhoods**

Screening, Inexperience
of Borrowers Are Causes;
Negro Leaders Back Plan
to Buy Meat Truck With Stereo

By BURT SCHORR
Reporter of THE WALL STREET JOURNAL
NEW YORK—The butcher, the barber and the shoemaker are worrying Uncle Sam's loan officers. They aren't paying up.
There are the restaurant owner, the gas station operator, the dry cleaner or hundreds of other entrepreneurs who borrowed money from the Small Business Administration under the federal program originally conceived as a way to lift incomes and aspirations in poverty areas.
As a result, according to one rough estimate, Uncle Sam may lose something more than \$10 million on defaulted loans. And the program may fall far short of its objective. In the Bronx, the trouble is traced to poor choice of borrowers and inadequate counseling and supervision.
Consider the tale of one delinquent borrower, a butcher, with 10 years' experience running his own New York shop, seemed an ideal candidate. Local screening agents had vouched for his character ("his determination is strong"), though recommending that he take a 45-hour management course. (The butcher promised he would but later showed up only for one class session.) So the SBA dishanded him a \$7,800 loan for eight years at 5½% interest. The butcher parceled out the proceeds to pay off high-interest debts to suppliers, purchased a truck for meat pickups, installed a display counter and made other store improvements.

One Monthly Payment
That was in April 1966. To date, the butcher has made only one of the agreed \$102 monthly payments. In fact, when an SBA loan specialist visited the shop last January, he discovered his quarry had migrated to Staten Island, leaving his retired father-in-law to run the shop. The \$3,000 truck, which proved to be equipped with a stereo tape player, was standing idle in the street.

Recently, the butcher showed up at the SBA office here to propose a settlement involving sale of the truck "for \$1,700 or \$1,800" and \$20 weekly payments on the unpaid portion of his loan. Checking the condition of the truck, however, the SBA discovered it had been in a collision and might bring only \$1,000 after repairs. Moreover, the butcher again has reneged on payments after putting up an initial \$20. As a result, the SBA decided to seek a court judgment against him. (avg. \$10,000)

Under the 1964 antipoverty law, the SBA has so far handed out some \$50 million of such Economic Opportunity Loans, or EOLs, to nearly 4,600 borrowers. About 60% of the money has gone to whites, the remainder to Negroes and other minority groups. The loans, all at the 5½% interest rate, range up to \$25,000 and run as long as 15 years.

Although Washington still has no clear idea how much will be repaid, some SBA insiders now fear the Government's eventual losses will prove considerable. By one forecast, they may go as high as 40% on the \$23.2 million in EOLs made before last December, when somewhat stricter lending criteria became effective; on more recent loans, the repayment experience presumably may be happier. (By contrast, the default rate on the SBA's regular loans to small business runs around 2.5%.)

Around \$7 Million
SBA records for this city, where more Economic Opportunity Loans have been disbursed than anywhere else in the nation, suggest the program's difficulties aren't exaggerated. EOL lending through the agency's New York-area office has totaled around \$7 million.

Some \$2 million of these loans are still too new to permit meaningful judgment of repayment prospects, but of the \$5 million of old EOLs made by the New York office, \$1.6 million are more than 60 days overdue, are in liquidation or have been written off as uncollectible. Moreover, this tabulation excludes loans on which borrowers obtained SBA permission to reduce or delay their payments because of sickness or other temporary difficulties that could presage later disaster.

To deal with the repayment problem, the SBA has its collection men pounding the pavements in increased numbers. It's also screening borrowers more closely, aiming less at impoverished borrowers in Negro slum areas and more at better credit risks. "A short-term instruction course is not going to make a businessman out of someone coming out of poverty," an SBA official here asserts.

But this attitude has provoked bitter criticism among Negro leaders who contend the EOL program is bound to lose money if it is to offer a new start for the disadvantaged.

"Hope and Pride"
"You can't measure the intangible by-products of a loan, like hope and pride," says Berkeley G. Burrell, owner of a Washington, D.C., dry-cleaning concern and president of the National Business League, a Negro businessmen's organization. Sympathy for such views could well increase in Congress during the coming weeks. One possible result: Renewal of Federal funds for local Small Business Development Centers (SBDCs), which recruit and counsel borrowers in poverty areas. Some of these centers, which were organized by local citizens' groups and have operated separately from the SBA, were forced to close after their money ran out on June 30.

The other day, responding to a request from the Senate antipoverty subcommittee, Office of Economic Opportunity Director Sargent Shriver agreed to reopen the funding faucet until Aug. 31: this will help assure the temporary survival of at least 25 centers and allow Congress time to consider a longer-term arrangement. "Evidence indicates that they (the centers) have had success in providing management and technical assistance to underprivileged people."

Please Turn to Page 10, Column 1

(2 sheets. continued on the next sheet.)



Antipoverty Setback: Program to Aid Firms In Poor Areas Falter

Continued From First Page

ileged and minority small businessmen," the subcommittee said.

According to others who have studied the program, however, the relatively meager management counseling available to EOL borrowers so far (even with all the SBDCs in operation) has made Federal loans a highly inefficient means for improving living standards of the poor in urban ghettos. Here's the appraisal given in a confidential report on New York City's EOL operations, recently completed by Kirschner Associates Inc., a New York management consultant firm:

"Initially, it was believed that the available sources of capital did not adequately serve the aspiring businessmen of the poverty area and that if funds and management were made available . . . it would help improve the character of life in the poor areas . . . provide employment . . . (and) encourage the virtues of private enterprise.

"It appears that for the small marginal businessman served in the EOL program these expectations have largely not been satisfied. . . . The persons provided loans are those in the business group that are least likely to succeed; they are the persons who are not likely to provide employment in substantial numbers or in concentrated visible ways; they are the types of businesses which will continue to require high administering costs for training and loan servicing."

This appraisal actually echoes private misgivings voiced at the OEO and the SBA, which started out having joint responsibility for the EOL program. SBA Administrator Bernard Boutin in particular believes the SBDCs (44 strong at one time) recommended too many loan applicants having scant chance of business success. An SBA official in New York agrees: "We'd get a guy the SBDC recommended for money to open a bodega (Puerto Rican grocery store). Then when he started to miss his payments, we'd learn there already were two bodegas in the same block."

Looking at the Record

Last year Congress handed full EOL control to the SBA, and the agency speedily lifted loan-processing duties from the hands of the SBDCs and turned them over to its own loan assistance staff. More important, it imposed new lending criteria that emphasize the borrower's past business record and his likelihood of success. Low income and membership in a "disadvantaged" group still carry weight, but ceilings on family income and residence in specified poverty areas have been scrapped as eligibility requirements.

A typical beneficiary of the change: The Negro owner of a small Peoria, Ill., printing shop previously disqualified from EOL financing by his location and his income. Now in the process of receiving a \$11,000 loan, he'll soon move to a larger shop in nearby Princeville where several large industrial customers can use his services.

"In SBA we do not accept the idea that a man in a given neighborhood, or a merchant of a given minority, is confined to doing business with people of his own kind," Administrator Boutin told a House committee recently.

A corollary of this policy, though, has been a letup in SBA lending in Negro slum areas. Many Negro leaders have interpreted this as a return toward a "lily-white" lending pattern.

"No more will the antipoverty program reach down into the ghettos of the big cities to help people who do not have a friend at Chase Manhattan," writes Roy Wilkins, executive secretary of the National Association for the Advancement of Colored People, in his nationally syndicated newspaper column.

Adds Whitney Young, executive director of the National Urban League, an organization with long experience in aiding Negro businessmen: "SBA says it wants Negro businessmen in the program from everywhere, not just selected areas. But that's not realistic. Given present Negro feelings of black pride and mis-

trust of white America, the Negro businessman feels he has less chance of success in non-Negro areas."

Borrowers in Hot Water

Whatever the validity of such complaints, case histories of loans outstanding suggest that policing EOLs can be far tougher than finding applicants. Consider the barber and the dressmaker, two New York borrowers now in hot water with Uncle Sam:

The barber shop, at a dingy location in Harlem, shows no evidence that its 58-year-old owner spent, as claimed, the \$2,000 the SBA lent him two and a half years ago for a new asphalt tile floor and the reupholstering of his two shabby barber chairs. All the same, the shop managed to gross \$1,000 monthly in 1965, according to figures supplied to the SBA by the barber. (Results for 1966 aren't known because, like many EOL debtors, the barber has ignored the SBA's requirement that it receive an annual financial or income tax statement.) This income would appear ample to cover the monthly loan payments of \$39. Yet the barber is 11 months in arrears on his unpaid balance of \$1,362.

In a grimy back room lighted by a bare bulb, he complains to SBA loan specialist David Offenberg of new competitors "thick as hairs on a dog's back" within a two-block radius. Hearing that the competitors charge only \$1 for a haircut compared with the barber's price of \$1.50, Mr. Offenberg advises establishing a Monday-through-Wednesday children's price of 75 cents. "You just can't sit here and wait for customers to come to you," Mr. Offenberg warns. The barber says he'll "think about it," but he's obviously not enthusiastic.

The dressmaker, a Negro designer with a tiny Greenwich Village workshop, is delinquent on a \$15,000 loan made last year to finance production of couturier fashions for New York retail stores. His problem, it seems, is more business than he can handle.

After investing \$5,000 in whipping up a line of holiday-season sample dresses, the designer reports he received some \$10,000 in initial orders—only to discover that fabric houses wouldn't allow him credit to purchase the material to fill them. (The remaining \$10,000 of his SBA loan had been committed for other essentials of his operations.) Result: Only \$4,000 of orders could be filled—and those with costlier fabrics than he figured on; buyers were irritated, and most of the sample investment went for naught.

"If someone had done a management study for me nine months ago, I would have discovered beforehand that the fabric houses wouldn't extend me credit," the designer grumbles.



NEGROES TO BUILD SHOPPING CENTER

Project Is First for New
Philadelphia Corporation

Special to The New York Times

PHILADELPHIA, July 22—In the spring of 1965 a group of young Negro business and professional men met here to determine how Negroes could best help themselves get ahead in the business world.

This week that group—now a corporation—announced its first project—the development of a 13,000 square foot shopping center in which all of the stores will be operated by young Negroes. It will be called Poplar Plaza and will be situated at 10th and Poplar Streets in a predominantly Negro area of North Philadelphia.

The sponsoring organization, the Greater Philadelphia Enterprises Development Corporation, announced that it had been granted a \$350,000 loan for the project by the Small Business Administration, a Federal agency. Additional help has come from the Continental Bank and Trust Company, the Frankford Grocery Company, the North City Corporation and other organizations.

"The most important aspect of Poplar Plaza," said Clarence Farmer, the nonprofit corporation's president, "is that it has been conceived and will be executed by members of the Negro community as a pilot effort to create greater minority group entrepreneurship." He added:

"We are now on our way, and are already looking for other similar opportunities. From this experience we are convinced that there is great potential and great need for projects of this type throughout the city."

27 With a Goal

Mr. Farmer, who was recently named executive director of the Philadelphia Commission on Human Relations, is a North Philadelphia businessman and was among the 27 men who pledged funds to get the corporation started. Their specific goal was to encourage Negro-operated businesses to expand and to create new enterprises with government and private financing.

Establishments in the new center will include a Frankford-Unity supermarket with 30 employees, a restaurant, a dry cleaning shop, a barber shop and a professional office. There will be parking for 60 automobiles.

Two businesses already operating on the site, a gasoline station and a drugstore, will become part of the center. Construction will begin in September and is expected to be completed by early next spring.

15-Year Guaranteed Lease

J. Harrison Jones, president of the Continental Bank and Trust Company, expressed "delight" over the opportunity to cooperate in a plan to provide more jobs and business services in North Philadelphia and help to expand the local economy.

The lease for the supermarket will be guaranteed by the Frankford Grocery Company for 15 years. The concern will also provide the store's first inventory.

Local investors, including some members of the development corporation, will invest \$25,000 in the project. Victor H. Wilburn, architect and planner, has designed the shopping center, which will be adjacent to two of Philadelphia's largest public housing developments.

In addition to creating the shopping center, the development corporation has been engaged in providing technical assistance on a voluntary basis to dozens of small Negro businessmen with limited resources.

It has provided legal counsel, accounting services, marketing assistance, and other advice and counsel as it was needed. Many of these businesses, small and struggling, were kept alive only through the help provided by the corporation.

SUBJECT: small convenience stores doing well, compared to supermarkets

SOURCE: Boston Sunday Globe, July 23, 1967

Riva Poor

CONVENIENCE STORES.

According to the president of the National Association of Retail Grocers, Malcolm J. Reid, "The fastest growing area of our industry is the convenience store. Many firms have sold their supermarkets and gone into this type of operation."

A convenience store is a neighborhood market, generally franchised, which carries a limited number of groceries, frozen foods, dairy products, delicatessen, fruit, and vegetables -- but no meat.

The convenience stores are spreading most rapidly throughout the East where they are known as Jiffy Mart, Little Giant, Tom Thumb, and other similar names.

At a recent grocers' convention in Las Vegas, Reid pointed out that the average convenience store can be opened with a capital of \$40,000, whereas a supermarket costs about \$250,000.

Convenience stores are usually open seven days a week from 7 a.m. to 11 p.m., are frequently run by a family who has paid the franchise fee of \$2500, in return for which the franchiser provides the site, inventory, training, and supervision.



The Personal Touch

Family-Run Store Uses Service to Compete With Big Discounters

Hardware at Brody Brothers' In New Jersey Costs More, But Customers Are Loyal

It Also Helps to Be a Joiner

By LEE BERTON

Staff Reporter of THE WALL STREET JOURNAL

PARAMUS, N.J.—Not long ago, high-school counselor Elizabeth Freeman paid \$4.25 to Brody Brothers hardware store here for a bale of peat moss to put in her backyard flower bed.

Miss Freeman knew that a discount store only five minutes from her house sold the same peat moss for \$3.44 a bale, 19% less than Brodys'.

But she figures that for \$1 cents more, she gets a lot, including a friendly greeting of "Hi, Betty!" from the brothers Mike and Marty Brody. "I used to shop at the discount houses," she says, "but I got fed up waiting in long lines at check-out counters. Also, the Brodys deliver the product just where I want it so I don't have to lug it around. The service far outweighs the price."

Mike Brody, serious and sharp-eyed at the age of 51, and Marty Brody, chunky, gregarious and five years older, keenly court customers like Miss Freeman. Well they might. Such customers are the key not only to Brody Brothers' success but to the store's very existence.

A dozen years ago, department stores and discount houses began invading this 10.1 square-mile borough of 28,000 people in northern New Jersey, 10 miles from New York City. Today, the Brodys are surrounded by bargain-basement competitors. At least half a dozen discount stores with large hardware departments compete with them. Nine big chain department stores carry hardware, too.

The competition facing stores such as the Brodys' in Paramus may be even stiffer than that confronting most small businessmen. To take advantage of Paramus' strategic location, 134 retail goods and service establishments have sprung up in three large shopping centers and other locations flanking State highways 1 and 17, which intersect in Paramus.

Traveling 100 Miles to Shop

These stores lure families who live as far as 100 miles away. Altogether Paramus' stores take in \$300 million a year, an amount equal to more than \$10,000 a resident, the highest per-capita retail sales figure among cities, towns or boroughs of more than 20,000 residents in the country.

Riva Poor
(2 sheets)

But most of the out-of-towners whose spending inflates Paramus' sales come to shop in the big department and discount houses, and many local residents flock to them, too. The result, here and elsewhere, is that many modest-sized retailers are being forced to reduce their profit margins by meeting discount house prices—or shut down.

In the Brodys' line, hardware, that trend is especially noticeable. The number of hardware stores dropped to 27,000 last year from almost 30,000 in 1963, and by 1972 only 22,000 may exist, according to the National Retail Hardware Association, a trade organization. By contrast, the number of department stores and discount houses has increased to 5,000 from fewer than 4,300 in 1963.

Under One Roof

At a major modern shopping center, a customer can park his car free and buy under one roof all his family's clothing, gifts, furniture, appliances, radio or television sets, garden supplies, sporting goods and hardware. Mike and Marty Brody, and many other shopkeepers like them, can't hope to match that kind of convenience.

But they can survive and even thrive by being quick to take advantage of the shortcomings of their richer competitors. "Customers are getting tired of being waited on by anonymous and unenthusiastic store clerks who don't know the difference between a two-by-four and a dowel stick," says E. L. (Barry) Barringer, executive editor of *Hardware Age*, a trade publication. "They want more personal guidance from local store owners who know them by their first names and can help them solve specific home-owner problems."

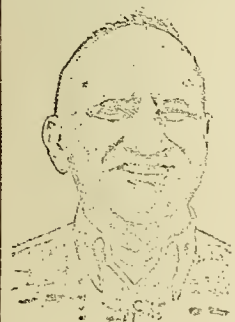
When David Levin decided in May to install a sprinkler system in the lawn around his new three-bedroom ranch-style house in Paramus, he went to Mike Brody. The storekeeper drew up a diagram for locating each sprinkler and delivered needed attachments in the evening after the store was closed.

"Sure, a discount house might sell the sprinklers for less, but it's not worth the difference," says Mr. Levin. "The Brodys go out of their way to help." The sprinkler system cost him \$230. Mike recently spent three hours, during which he got soaked, helping another customer install his sprinkler system.

Marty Brody often demonstrates floor-tile-laying for customers in their homes. Mike not long ago opened the store after midnight for an electrician who needed some cable for a job that had to be finished by daybreak.

Mainly to enhance community relations, the Brodys serve as an agent for Western Union, delivering local telegrams; they receive the wires on a facsimile printer in the store. They have hired a handyman, Frank VanWormer, to work in the store basement repairing appliances and other items for customers. "We don't make a heck of a lot of money on some of

Please Turn to Page 16, Column 6



Marty



Mike

(continued on next page)



(continued from the previous page)

The Personal Touch: Family-Run Store Uses Service to Compete

Continued From First Page

these services, but they gain us recognition and friends," says Marty Brody.

Discounters concede they can't provide all the amenities of service that a shrewd owner of a small store can. "A small neighborhood retailer can do well, even right next door to a discount house, by having a complete stock and by giving individual service to each customer," says Irwin Goodman, general manager of Masters Inc., Flushing, N.Y., operator of four discount houses in the New York area.

Apathetic service at big stores infuriates customers on occasion. A 54-year-old electrician recently stormed out of the Grand-Way Discount Center at Paramus after trying for 15 minutes to find a can of paint. "A clerk still hasn't waited on me, and I still can't find the shade I want," he complained. A store employee explained that the clerk who runs the paint department was "out to lunch, and there's not enough help to spell him."

The big stores, of course, can compete in ways that the Brodys cannot. The larger department stores and discount houses have spacious seven-foot aisles. They display their merchandise in eye-catching fashion. Their parking facilities are usually more convenient.

By contrast, Brody Brothers has three-foot aisles. Almost every inch of its 13-foot walls is stacked with wares. The parking lot that customers of Brodys' and seven other small stores use holds 100 cars; the Garden State Plaza shopping center, 10 minutes away, holds 8,000.

The Brodys' prices are higher on most goods. An E. J. Korvette Inc. discount house at Paramus sells a soldering kit for \$6.45 that Brodys' prices at \$6.95. The Grand-Way Discount Center has a lawn sprinkler for \$3.37 that bears a \$3.95 tag at Brodys'. Rickel Brothers discount store undersells Brodys' on one make of heavy-duty work bench vise by a full \$3.

Still, the Brodys figure they're keeping their prices lower than they otherwise might be: in 1962, they joined a distributors merchandising cooperative that buys goods in large quantities for 104 stores in the New York area. Mike Brody says that on occasion their prices on some items are lower than their competitors'.

Lack of space is a constant aggravation at Brodys'. To keep a customer, the Brodys figure they must offer him plenty of choices when he's looking for an item. They stock, for example, 28 different screw drivers, compared with 11 types in the hardware department of Bamberger's department store at Garden State Plaza. But variety requires space. "It's so tight in the store that I can't always get the delivery in where the Brodys want it," complains a truck driver making a delivery to Brodys'.

With all these disadvantages, Brodys' is prospering. Though its rising sales still haven't regained their peak of the early 1950s, before the competitive onslaught, the store has outlasted some larger competitors. One big hardware store that opened at a nearby shopping center in 1957 folded six years later, largely because its stock wasn't diversified enough and disappointed customers refused to come back. A Great Eastern discount store that opened in Paramus in 1959 closed its hardware department in 1965 and shut down completely last July.

The Brodys have carefully maintained their standing in the community. They sell goods to the Paramus fire department, the school board, the local Post Office, the county road department, hospitals, borough road and park departments, and the mosquito control commission.

Those sales result partly from the Brodys' active participation in civic affairs. Mike Brody helped organize the Lions Club 14 years ago. He was one of the citizens who helped get a local blood bank started. He has served as a member of the Borough Council. Marty Brody is a sergeant in the 43-man Paramus volunteer ambulance corps and a charter member of the Elks lodge. He has been a trustee of the Paramus Public Library.

Though the Brodys won't disclose their earnings, they obviously live well. Their families occupy a duplex valued at \$42,000. They plan two-week Caribbean cruises this summer. Each brother has sent two children to college. Marty's 21-year-old son, David, is to enroll in medical school next year after graduating from Rutgers University.

On Saturday, the big day at Brodys', the families can be found helping out at the store. Mike's wife, Lillian, Marty's wife, Jeanette, and at least two of the four children pitch in on occasion.



Riva Poor

SUBJECT: Businessmen sue the State of Mass., on the basis of an old law, attempting to collect money to repay them for damages due to the riot.

SOURCE: Boston Globe (~~2~~) or the Record American; early June, 1967.

Suits Flood Court From Roxbury Riot

By JOSEPH A. KEDLINSKY

The first of an expected flood of damage claims against the City of Boston were filed today as the result of the Roxbury riots two weeks ago.

The claims are made possible by a little-known state law. Legal experts could not remember the law being invoked before.

As amended in 1965, the law says that if property damage of \$50 or more is caused "by five or more persons who are riotously or tumultuously assembled," the community may be liable for up to 75 percent of the cost.

Before the amendment, the law specified 12 or more persons.

Four claims were filed this morning by the law firm of Ravech & Sherman, 69 State st., and two more were expected before day's end.

The firm said it has not presented an inventory of damages sustained by the four firms, but added the total will be "considerable."

The claims were filed under terms of the law, with the city law department and the city clerk's office.

★ ROXBURY

Continued from Page 1

The law department said it feared an avalanche of claims had begun.

The law, which dates back to 1839, says that to be entitled to reimbursement the petitioner must prove he took all precautions to protect his property.

The petitioner must also attest that he stands "ready to be used in any court proceedings to pursue the conviction of the offenders."

The claims filed this morning were by four neighboring firms on Blue Hill av., Roxbury.

They were Eileen's Fashion, No. 461, owned by Samuel Alsen of 39 Craig st., Milton; Harry's Five to \$1 Store, No. 465, owned by Harry Smirsky, of 76 Elgin st., Newton; Jacob Brothers & Green, a key shop, at No. 446, owned and operated by Alvester Green of 209 Harvard st., Dorchester, and Spinale's Sandwich Shop, No. 441, owned and operated by Constantino Gilberto of 9 Lawrence rd., Medford.

ROXBURY

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Riva Poor

PRESIDENT CALLS FOR FREE INQUIRY ON NATION'S RIOTS

Orders Commission to Find
Answers Without Regard
to 'Conventional Wisdom'

DETROIT GETS U.S. AID

Stricken Areas Are Declared
Eligible to Get Loans
for Small Businesses

By ROY REED

Special to The New York Times

WASHINGTON, July 29 — President Johnson put his new commission on civil disorders to work today on a long list of questions, charging it to find the answers without regard to "conventional wisdom."

As he posed them, the questions about the recent racial riots boiled down to three that were basic:

"What happened?"

"Why did it happen?"

"What can be done to prevent it from happening again and again?"

Meanwhile, Mr. Johnson ordered the Small Business Administration to make available long-term, low-interest loans to home owners and small-businessmen whose property was damaged in the Detroit violence.

The President, calling the commission to its first meeting at the White House, told the 11 members that he wanted advice on short-term measures to prevent riots and on better ways to contain them if they broke out.

Moreover, he said he wanted to know of long-term measures "that will make them only a sordid page in our history."

JOHNSON ORDERS AID FOR DETROIT

Stricken Areas to Receive
Small-Business Loans

WASHINGTON, July 29 (AP)

—President Johnson ordered The Small Business Administration today to make available long-term, low interest loans to home owners and small businessmen in Detroit.

The action was announced at the White House by Cyrus Vance, who is Mr. Johnson's personal representative in Detroit. He returned here for the day to report to the President.

Mr. Johnson, Mr. Vance said, directed the Small Business Administration to declare some sections of Detroit disaster areas.

This means that property owners of those sections may apply for 30-year loans at 3 per cent interest to help rebuild their homes and businesses.

Mr. Vance said he could not estimate the dollar volume of loans that might be granted.

He said there had been no Federal action to declare Detroit a major disaster area under the program administered by the Office of Emergency Planning.

Such a designation, which is sought by Gov. George Romney and Mayor Jerome P. Cavanagh, would permit the city to apply for Federal grants to remove debris and to restore essential public facilities.

Mr. Vance, a former deputy secretary of defense, said he was unable to estimate when Federal troops might be withdrawn entirely from Detroit.

"We will move on a gradually phased basis and gradually remove the Federal presence," he said.

of 700 SBICs (June, 1967) 250 are
in trouble or worse kind. (see article
in Wall Street Journal - see W.S.J. index in
copy, 59 Library)

BARROON'S

National Business and Financial Weekly

25 CENTS

JUNE 26, 1967

No Small Boondoggle

It's Time for Uncle Sam to Cut His Losses in SBICs

Riva Poor

SUBJECT: SBICs

(Small Business
Investment
Corps. -
licensed and
funded by the
SBA)

3 sheets.

THE stock market these days is vaguely reminiscent of 1961. That was the halcyon year — remember? — for electronics, the Diners' Club and discount houses. Bowling and teaching machine issues were flying. Kalvar was selling at 700 on an earnings deficit of \$2.82 per share, and the great safflower oil promotion was in full bloom. Almost any new issue could be counted on to go to a fat premium on the first day of trading. Speculation is no less rampant now. Kalvar, still showing a deficit, is up this year from 47 to 278. Other examples come readily to mind: Kleer Vu, a manufacturer of plastic specialties and false eye-lashes, has shot from 2¼ to 39½; an untried method of heating homes with electrified window panes sparked an eightfold increase in Gale Industries' quotation, and a wild run-up in Goldfield Corp. and Chemalloy Minerals followed hopeful reports of a tantalum discovery in Canada. Similarly, history is repeating itself in regard to small business investment companies (SBICs). They took off in spectacular fashion early in 1961, only to fade badly toward the end of that year. Now they are in vogue again; the SBIC Evaluation Service index shows a 40% gain just in four months.

Admittedly, there is more reason for investor interest today than there was in 1961. Several dozen publicly held SBICs have demonstrated their money-making capability. Lately, they've been aided by a return of investor enthusiasm for new issues, which allows them to score capital gains by bringing portfolio companies to market. Capital Southwest, for example, recently netted a \$6 million profit when a member of its stable, Capital Wire, went public. Moreover, Washington, which spawned the ungainly creatures in the first place, is more solicitous of their well-being than ever. Administration-backed legislation is pending in Congress which will give the SBICs a heavier-gauge siphon at the Treasury.

Their function, precisely, is to add a free-enterprise coloration to federal largesse. For nearly a decade, the government has been trying to stimulate small business by SBIC loans, and the experiment has been anything but a howling success.

The truth, concedes Administrator Bernard L. Boutin, "is that the program is in difficulty — very serious difficulty." A majority of SBIC managements, to be sure, are honest and well-meaning, but a high

proportion also seem to be inept. Mere to the point, shocking laxity in administration by Mr. Boutin's predecessors allowed unscrupulous operators to set up SBICs almost at will, and they lost no time in channeling the funds, not into small enterprises in need of venture capital, but into their own pockets. As a result, the government's losses are expected to be inordinately high. In any case, some of the stronger SBICs are walking out on the program, demonstrating that there is no need for it. Yet the Administration now asks Congress to authorize a vast expansion of the SBIC boondoggle. It's one more illustration of the adage: business liquidates its mistakes, government perpetuates them.

Set up in 1958 as a successor to the scandal-ridden Reconstruction Finance Commission, the Small Business Administration was authorized to charter SBICs as a means of closing the "equity gap" — the supposed lack of capital available to small concerns seeking to enlarge their horizons. Along with favorable tax treatment, they were granted low-cost Treasury loans up to 200% of paid-in capital. Thus, an operator with \$150,000 in hand (the minimum amount) could borrow \$300,000 long-term; in turn, he was expected to invest it in small companies of his selection. This irresistible proposition brought a flood of applicants, and in the early 'Sixties, the SBA handed out charters as though they were dog licenses. Nearly 800 were granted, and up to a

year ago Uncle Sam had shelled out \$270 million.

Subsidized lending inevitably leads to abuses, and they cropped up in the SBIC program from the start. It was designed to help small manufacturers, but 20% of all investments to date has been in real estate. Rather than enlarging the capital base of the few firms they have helped, many SBICs have simply lent them 5% government money at rates up to 15%. Ourright skulduggery is not uncommon. One ingenious practice was "bootstrapping." — obtaining \$300,000 or more of SBA loans without actually putting up the required \$150,000 of equity; the operator would get a friendly banker to deposit the latter amount to his account with the understanding it would never be drawn down. In "self-dealing" the SBIC's funds would be used to finance the operator's own small business, and in "cross-dealing" two of them would buy into each other's pet ventures. Some SBICs ventured into the realm of big-business wheeler-dealing with unfortunate results. Ten months after taking office, Administrator Boutin reports he has referred to the Justice Department 63 serious infractions of the law; four have resulted in criminal prosecutions. What with one thing and another, Mr. Boutin has deemed it prudent to set up a \$50 million reserve against losses on the \$270 million the government has lent the SBICs, a ratio to make the hardiest investment banker blanch.

How does Mr. Boutin propose to

deal with the ills of the SBICs? You guessed it. Give them more of the taxpayers' money. (He argues, reasonably enough, that setting up venture capital companies with \$450,000 in assets is overdoing the "small" aspect of the business; they lack funds for proper selection and surveillance of their portfolios. Hence, newly chartered SBICs will have to put up at least \$1 million of their own capital, and existing ones will have to reach that size by 1975.)

When this takes place, about five times as much money will become available in government funds. In fact, under a complicated incentive formula designed to encourage SBICs to take equity positions rather than make loans, each would be able to draw up to \$10 million in federal money. If the new legislation is passed, about three-fourths of existing SBICs would probably go out of business or be absorbed into larger ones. Still, some 200 would remain, and if all achieved the maximum size the U.S. could be obligated to boost its stake from the present \$270 million to \$2 billion.

By way of contrast, all 700 licensed SBICs had \$552 million in balances outstanding at the end of fiscal 1966, of which a mere \$93 million was in equity placements. So much for the nine-year effort to close the equity gap. Moreover, the good-sized, successful companies which have put up most of the funds disdain the government's help. Mr. Boutin's presentation to Congress showed that 72% of the private capital in the program was put up by just 88 companies; they borrowed only 31% of the federal money. Indeed, a number of top-ranking SBICs have turned their backs on the program altogether, becoming independent venture capital concerns. One that recently did so is Growth International. Says its president, Peter Van Oosterhaut: "The government contribution just isn't worth the red tape that goes with it."

Scandal-ridden and unneeded, the SBIC program long ago should have been scuttled. Now, however, to pour billions after the squandered millions, at a time when the nation should be mobilizing its resources in defense of freedom in Vietnam, would be profligate — and worse. Six years ago, Barron's called on Congress to liquidate the whole misguided effort. We can only repeat now what we said then: "Business, whether big or small, deserves no special privilege. All it has a claim upon is opportunity."

D28 BRA

Boston Redevelopment Authority .

Planning Department.

Business information, containing
newspaper clippings and articles
about business conditions.

DATE

ISSUED TO

